# IOI Properties Group (IOIPG MK)

## Asia Square Tower 2 Acquisition Positive To Earnings

| | |
|---|---|
| | **BUY** (Maintained) |
| Share Price | RM3.83 |
| Target Price | RM4.50 |
| Upside | 17.5% |
| Previous TP | RM4.00 |

**Analyst(s)**
**Ng Jo Yee**
joyee@uobkayhian.com
+603 2147 1984

## Highlights

- IOIPG's Asia Square Tower 2 acquisition appears opportunistic, with a 2% discount to market valuation and cap rate of 3.3%, largely in line with that of core CBD at 3.3%-3.4%.
- The acquisition translates to a net yield of about 1%, or annual earnings forecast of RM74m for FY27, with its Singapore interest rate assumption at 2.25%. This provides buffer against potential interest rate volatility.
- Maintain BUY with higher target price of RM4.50 from RM4.00, based on higher RNAV upon completion of Malaysia REIT listing.

## Analysis

- **IOIPG acquires Asia Square Tower 2 (AST2), targeted for completion by 3Q26.** IOI Properties Group (IOIPG) has announced the proposed acquisition of a 100% stake in MVKimi (BVI), which indirectly owns Asia Square Tower 2, for a purchase consideration of S$2.48b (RM7.77b). The purchase consideration appears fair and implies a 1.98% discount against the property's valuation of S$2.53b ascribed by Savills as of end-Dec 25.
- **Opportunistic buy…** We understand that IOIPG had directly negotiated with CICT two months prior and deem this an opportunistic buy, given the location of AST2, which sits in the middle of Marina View, IOI Central Boulevard Towers (IOICB), and Shenton House. The reason for CICT selling this is for strategic sales used to partially fund its acquisition of Paragon amounting to S$3.9b.
- **…resulting in higher gearing.** IOIPG's pro-forma net gearing will be increased from 0.9x as of end-Dec 25 to 1.2x, per our calculation, as this acquisition is expected to be completed before the Malaysia REIT listing targeted for 4Q26. Upon Malaysia REIT listing, we expect pro-forma gearing to ease to 1.0x.
- **Well-capitalised to benefit from Singapore's tight office supply outlook.** Including AST2, IOIPG's Singapore investment property portfolio could reach S$10b in AUM, with about 2.4m sf of prime CBD office NLA. This comes amid improving leasing demand and limited new supply. JLL Research estimates new CBD office supply at only 2.2m sf for 2026-30 (0.4m sf annually), below the historical annual net take-up of 0.6m sf.

### Key Financials

| Year to 30 Jun (RMm) | FY24 | FY25 | FY26F | FY27F | FY28F |
|---|---|---|---|---|---|
| Net turnover | 2,939.7 | 3,062.2 | 4,156.5 | 5,170.8 | 4,855.3 |
| EBITDA | 2,334.2 | 1,847.1 | 1,541.1 | 2,211.6 | 1,933.3 |
| Operating profit | 2,224.2 | 1,724.5 | 1,418.6 | 2,046.3 | 1,732.2 |
| Net profit (rep./act.) | 2,061.8 | 1,064.0 | 689.2 | 1,136.9 | 944.5 |
| Net profit (adj.) | 698.1 | 386.9 | 689.2 | 1,136.9 | 944.5 |
| EPS (sen) | 12.7 | 7.0 | 12.5 | 20.65 | 17.2 |
| PE (x) | 30.2 | 54.5 | 30.6 | 18.5 | 22.3 |
| P/B (x) | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 |
| EV/EBITDA (x) | 16.2 | 20.6 | 27.5 | 19.6 | 22.0 |
| Dividend yield (%) | 1.3 | 2.1 | 2.1 | 2.1 | 2.1 |
| Net margin (%) | 23.7 | 12.6 | 16.6 | 22.0 | 19.5 |
| Net debt/(cash) to equity (%) | 69.4 | 69.5 | 85.8 | 87.4 | 82.8 |
| Interest cover (x) | 117.4 | 4.1 | 2.8 | 3.7 | 3.2 |
| ROE (%) | 2.9 | 1.6 | 2.8 | 4.5 | 3.6 |
| Consensus net profit | | | 718.7 | 900.3 | 942.5 |
| UOBKH/Consensus (x) | | | 1.0 | 1.3 | 1.0 |

*Source: IOIPG, Bloomberg, UOB Kay Hian*

### Stock Data

| | |
|---|---|
| GICS sector | Real Estate |
| Bloomberg ticker: | IOIPG MK |
| Shares issued (m): | 5,506.1 |
| Market cap (RMm): | 21,088.5 |
| Market cap (US$m): | 5,334.1 |
| 3-mth avg daily t'over (US$m): | 6.8 |

### Price Performance (%)

| 52-week high/low | | | | RM4.00/RM1.73 |
|---|---|---|---|---|
| 1mth | 3mth | 6mth | 1yr | YTD |
| 11.0 | 28.1 | 82.4 | 112.8 | 45.1 |

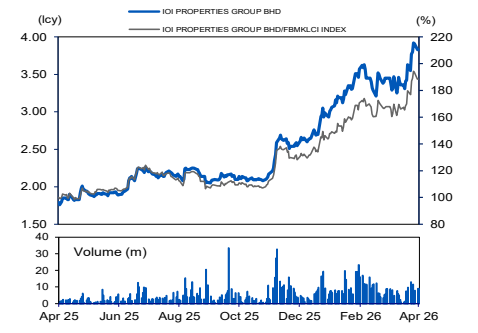
### Major Shareholders

| | % |
|---|---|
| Vertical Capacity | 65.7 |
| Employees Provident Fund | 6.8 |

### Balance Sheet Metrics

| | % |
|---|---|
| FY26 NAV/Share (RM) | 4.65 |
| FY26 Net Debt/Share (RM) | 4.06 |

### Price Chart




*Source: Bloomberg*

### Company Description

A property developer with a business portfolio encompassing leisure and hospitality, in addition to property development and property investment.

- **The acquisition is earnings accretive…** The acquisition implies an NPI yield of 3.3%, broadly in line with the prevailing 3.3%-3.4% cap rate for Grade A Singapore CBD offices. Assuming 3% yoy revenue growth in FY27, we estimate annualised PAT contribution of about RM68m in FY26 and around RM74m in FY27. Assuming acquisition completion by end-Sep 26, a nine-month contribution in FY27 would account for about 5% of our FY27 forecast.
- **… with positive yield providing buffer against rate volatility.** The projected 0.9%-1.0% net yield on acquisition cost provides some buffer against moderate interest rate volatility. Based on our estimates, every 25bps increase in interest rates would reduce annual PAT contribution by about RM20m.
- **AST2's rental gap with IOICB offers room for upside.** AST2's current average rent of S$11.85psf is above the adjacent AST1 at S$10-11psf (owned by HongKong Land), but below IOICB at S$13psf. Rental reversion potential remains meaningful, with management guiding for 5-10% rental reversion and selective AEIs to narrow the gap over time. AST2 has an average lease expiry profile of three years, with FY27/28 expiries of 14.8%/14.9%, while FY29 carries a higher lease expiry mix of 26%, due to anchor tenant expiries. Key anchor tenants include KPMG (123,000 sf), Mizuho Bank (88,000 sf) and Mitsui Group.

## Valuation/Recommendation

- **Maintain BUY with higher target price of RM4.50,** based on higher RNAV per share of RM5.60 after the Malaysia REIT listing, with an unchanged 20% discount to RNAV. Our target price implies 1.0x FY27F P/B and 21.7x FY27F PE (+1.5SD to 10-year mean). Beyond its Malaysia REIT listing targeted for 4Q26, IOIPG is well-positioned to capitalise on: a) falling interest rates in Singapore; b) potential capital outflow from Middle East; and c) faster industrial landbank monetisation. This opportunistic acquisition also could potentially be included into its SG REIT listing, which currently has an asset value of S$10b, improving its balance sheet over time.

## Earnings Revision/Risk

- We keep our earnings forecast unchanged pending acquisition completion.

## Environmental, Social, Governance (ESG)

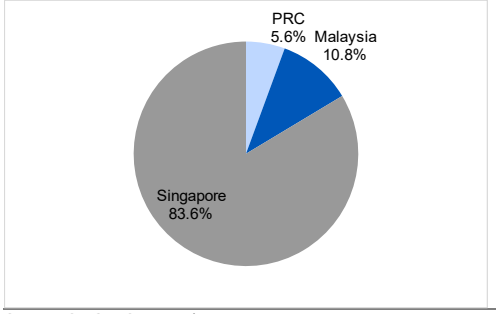
- Environment: Targets to reduce Scope 2 emissions intensity within the property investment operations by 15% by 2025 and 18% by 2028, using FY21 as the baseline.
- Social: Committed to promoting local procurement within its supply chain.
- Governance: Achieved 33% of women representation among the Board of Directors.

**Asia Square Tower 2 Earnings Forecast And Assumption**

| | | |
|---|---|---|
| Occupancy Rate (%) | 95.3% | 95.3% |
| Occupied NLA (sft) | 737,107 | 737,107 |
| Monthly Rental (SGD psf) | 11.85 | 12.21 |
| - Overall Rental Increase (%) | - | 3.0% |
| Annual Gross Rental Income (SGD m) | 104.8 | 108.0 |
| Annual Gross Rental Income (RMm) | 328.8 | 338.7 |
| NPI margin (%) | 78% | 78% |
| NPI (RMm) | 256.5 | 264.2 |
| NPI yield (%) | 3.30% | 3.40% |
| Interest rate (%) | 2.25% | 2.25% |
| Total borrowing for IOICB (RMm) | 7,763.6 | 7,763.6 |
| Interest cost (RMm) | 174.9 | 174.9 |
| PBT (MYR m) | 81.6 | 89.3 |
| Tax rate (17%) | 13.9 | 15.2 |
| PAT (RMm) | 67.7 | 74.1 |

*Source: IOIPG, UOB Kay Hian*

**Borrowings Position Mix As Of End-Dec 25**

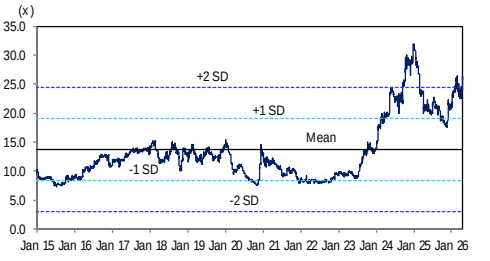



*Source: IOIPG, UOB Kay Hian*

**12-Month Forward P/B Band**

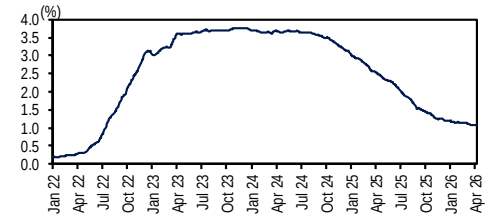
*Source: IOIPG, UOB Kay Hian*

**12-Month Forward PE Band**




*Source: IOIPG, UOB Kay Hian*

**Three-Month SORA**




*Source: IOIPG, UOB Kay Hian*

**Rnav Target Price Of Rm4.50/Share**

| NPV of Development Profits | (RMm) |
|---|---|
| Malaysia | |
| Central Region | 1,897 |
| Southern Region | 478 |
| Singapore | |
| Marina View | 763 |
| JV projects | 122 |
| China | |
| IOI Palm | 18 |
| Total | 3,278 |
| Shareholders' Funds | 27,313 |
| RNAV | 30,590 |
| Existing Sharebase | 5,506 |
| RNAV/share (RM) | 5.60 |
| Discount | 20% |
| Target Price (RM/share) | 4.50 |

*Source: IOIPG, UOB Kay Hian*

## Profit & Loss

| Year to 30 Jun (RMm) | FY25 | FY26F | FY27F | FY28F |
|---|---|---|---|---|
| Net turnover | 3,062.2 | 4,156.5 | 5,170.8 | 4,855.3 |
| EBITDA | 1,847.1 | 1,541.1 | 2,211.6 | 1,933.3 |
| Deprec. & amort. | 122.5 | 122.5 | 165.4 | 201.1 |
| EBIT | 1,724.5 | 1,418.6 | 2,046.3 | 1,732.2 |
| Associate contributions | 109.1 | 114.6 | 114.6 | 114.6 |
| Net interest income/(expense) | (379.2) | (467.7) | (489.1) | (485.4) |
| Pre-tax profit | 1,454.4 | 1,065.5 | 1,671.7 | 1,361.4 |
| Tax | (385.0) | (370.8) | (529.4) | (411.4) |
| Minorities | (5.4) | (5.4) | (5.4) | (5.4) |
| Net profit | 1,064.0 | 689.2 | 1,136.9 | 944.5 |
| Net profit (adj.) | 386.9 | 689.2 | 1,136.9 | 944.5 |

## Balance Sheet

| Year to 30 Jun (RMm) | FY25 | FY26F | FY27F | FY28F |
|---|---|---|---|---|
| Fixed assets | 10,083.6 | 12,440.1 | 12,474.7 | 12,473.7 |
| Other LT assets | 26,032.4 | 28,526.1 | 28,740.7 | 28,955.3 |
| Cash/ST investment | 2,485.6 | 3,617.4 | 2,411.0 | 2,960.7 |
| Other current assets | 8,313.8 | 7,749.2 | 9,569.5 | 9,003.3 |
| Total assets | 46,915.3 | 52,332.8 | 53,195.9 | 53,392.9 |
| ST debt | 2,663.4 | 2,663.4 | 2,663.4 | 2,663.4 |
| Other current liabilities | 1,831.2 | 1,615.4 | 1,976.7 | 1,864.3 |
| LT debt | 16,926.3 | 22,305.4 | 22,105.4 | 21,905.4 |
| Other LT liabilities | 972.4 | 972.4 | 972.4 | 972.4 |
| Shareholders' equity | 24,428.8 | 24,677.5 | 25,374.0 | 25,878.0 |
| Minority interest | 93.3 | 98.7 | 104.1 | 109.5 |
| Total liabilities & equity | 46,915.3 | 52,332.8 | 53,195.9 | 53,392.9 |

## Cash Flow

| Year to 30 Jun (RMm) | FY25 | FY26F | FY27F | FY28F |
|---|---|---|---|---|
| Operating Cashflows | 1,060.1 | 1,051.4 | (265.9) | 1,490.3 |
| Pre-tax Profit | 1,454.4 | 1,065.5 | 1,671.7 | 1,361.4 |
| Tax | (385.0) | (370.8) | (529.4) | (411.4) |
| Deprec. & amort. | 122.5 | 122.5 | 165.4 | 201.1 |
| Associates | 109.1 | 114.6 | 114.6 | 114.6 |
| Working Capital Changes | 126.6 | 348.8 | (1,459.0) | 453.9 |
| Others | (367.6) | (229.2) | (229.2) | (229.2) |
| Cash from Investing Activities | (833.3) | (2,479.1) | (200.0) | (200.0) |
| Capex (Growth) | (1,236.6) | (2,479.1) | (200.0) | (200.0) |
| Capex (maintenance) | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 403.4 | 0.0 | 0.0 | 0.0 |
| Cash from Financing Activities | 85.7 | 2,559.5 | (740.5) | (740.5) |
| Dividend Payments | (440.5) | (440.5) | (440.5) | (440.5) |
| Issue of Shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Net drawdown/(repayment) of Borrowings | 1,274.6 | 3,000.0 | (300.0) | (300.0) |
| Others | (748.3) | 0.0 | 0.0 | 0.0 |
| Net Increase/(Decrease) in Cash | 312.6 | 1,131.8 | (1,206.4) | 549.8 |
| Beginning Cash | 2,223.6 | 2,485.6 | 3,617.4 | 2,411.0 |
| Changes Due to Forex Impact | (50.6) | 0.0 | 0.0 | 0.0 |
| End Cash | 2,485.6 | 3,617.4 | 2,411.0 | 2,960.7 |

## Key Metrics

| Year to 30 Jun (%) | FY25 | FY26F | FY27F | FY28F |
|---|---|---|---|---|
| Profitability | | | | |
| EBITDA margin | 60.3 | 37.1 | 42.8 | 39.8 |
| Pre-tax margin | 47.5 | 25.6 | 32.3 | 28.0 |
| Net margin | 12.6 | 16.6 | 22.0 | 19.5 |
| ROA | 1.0 | 1.6 | 2.6 | 2.2 |
| ROE | 1.8 | 3.1 | 5.1 | 4.2 |
| | | | | |
| Growth | | | | |
| Turnover | 4.2 | 35.7 | 24.4 | (6.1) |
| Net profit (adj.) | (44.6) | 78.2 | 65.0 | (16.9) |
| | | | | |
| Leverage | | | | |
| Debt to total capital | 44.5 | 50.3 | 49.4 | 48.7 |
| Debt to equity | 79.6 | 100.4 | 96.8 | 94.1 |
| Net debt/(cash) to equity | 69.5 | 85.8 | 87.4 | 82.8 |
| Interest cover (x) | 4.1 | 2.8 | 3.7 | 3.2 |

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